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FISCAL IMPACT STATEMENT

LS 7002 | **NOTE PREPARED:** Jan 15, 2007
BILL NUMBER: SB 538 | **BILL AMENDED:**

SUBJECT: State Spending Limit.

FIRST AUTHOR: Sen. Weatherwax | **BILL STATUS:** As Introduced
FIRST SPONSOR:

FUNDS AFFECTED: X **GENERAL** | **IMPACT:** State & Local
X **DEDICATED**
X **FEDERAL**

Summary of Legislation: This bill limits increases in state expenditures to an amount based on the increase in inflation and population. The bill allows the General Assembly to authorize additional spending through adoption of a concurrent resolution. The bill also establishes the Property Tax Elimination Fund to receive certain state revenues that exceed the spending limit and provides that the fund is to be used to pay for any distribution or expenditure that was previously funded in whole or in part by property tax revenue.

Effective Date: Upon passage.

Explanation of State Expenditures: *Expenditure Limits:* This bill establishes a maximum annual percentage change for state government expenditures to be based on the sum of the percentage change in inflation (defined as the GDP Implicit Price Deflator) and population. If revenues exceed the expenditure limit, the excess shall be deposited in the Property Tax Elimination Fund. The General Assembly may authorize spending that exceeds the expenditure limit if a concurrent resolution is adopted by two-thirds of the members of both the House and Senate.

This expenditure limit is "in addition" to the current limit established under IC 4-10-21-0.5, and the existing expenditure limit, if higher, may not supersede the one established in this bill. Therefore, the strictest of the two limits would be imposed on future expenditures.

The Property Tax Elimination Fund is established to provide funding for expenditures previously paid for from property taxes. The Fund is to be administered by the Treasurer of State. The Treasurer shall invest money in the Fund not currently needed to meet the obligations in the same manner as other public money. Interest that accrues shall be deposited in the Fund. Money in the Fund at the end of the fiscal year does not revert to the General Fund. No money in the fund may be distributed until taxing units are prohibited from imposing property taxes.

The bill allows individuals to file a lawsuit to enforce the state expenditure limits. Successful plaintiffs are allowed costs and reasonable attorney fees. The state may recover costs and reasonable attorney fees if a suit is ruled frivolous.

This bill applies to appropriations beginning in FY 2008. According to the July 11, 2006, Reserve Statement, FY 2007 budgeted appropriations are $12,237.5 M. The average annual change in the GDP Deflator for the last four calendar years has been 2.7%. The average annual change in population has been less than 1%. Depending on the level of inflation and change in population in 2006, FY 2008 expenditures could be restricted to approximately a 3.4% increase. The December 14, 2006, Revenue Forecast projects a 4.2 % increase in General Fund and Property Tax Replacement Fund revenue from FY 2007 to FY 2008.

The impact on state spending and the amount of revenue which would be deposited in the Property Tax Elimination Fund is subject to legislative, executive, and judicial actions.

Background Information: The average annual change in the GDP deflator and population for the last five years as well as the expenditure limits set out in this bill are identified below.

Calendar Year	% Change GDP Deflator (Apr Avg)	% Change Population	Fiscal Year	New Cap (GDP + Pop Change)	Current Cap*
CY 2004	2.18%	0.51%	FY 2005	2.69%	3.94%
CY 2005	3.03%	0.69%	FY 2006	3.72%	3.73%
CY 2006	3.01%	0.76%	FY 2007	3.77%	3.39%
CY 2007	2.77%	0.60%	FY 2008	3.37%	3.70%
CY 2008	2.27%	0.60%	FY 2009	2.87%	3.81%

* As calculated by the State Budget Agency under IC 4-10-21-0.5

Explanation of State Revenues:

Explanation of Local Expenditures: *Expenditure Limits:* Distributions of state revenue to local units of government are dependent on the disposition of state appropriations.

Explanation of Local Revenues:

State Agencies Affected: Attorney General's Office; State Budget Agency; General Assembly; Treasurer of State.

Local Agencies Affected: All.

Information Sources: *FY 2006 GF & PTRF Summaries*, July 11, 2006 - State Budget Agency; December

14, 2006, *State Revenue Forecast*- Revenue Forecast Technical Committee; IC 4-10-21 Business Cycle State Spending Controls, State Budget Agency; Census Bureau; Bureau of Economic Analysis.

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